PUBLIC FINANCING OF CAMPAIGNS

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Abstract
With the federal government and most states limiting or prohibiting individual, corporate, and union contributions to campaigns, reformers are turning their attention to the public financing of campaigns. While partial financing of campaigns already exists in several states, only a handful have enacted so-called “clean elections” laws, which completely fund the campaigns of participating candidates and require that these candidates raise no additional funds. We argue that such reforms are being adopted without sufficient attention to scientific studies, which to date find little to no systematic impact of existing funding programs. In this paper, we discuss what we know--and don’t know--about public financing, and how scientific inquiry can inform the normative debate on campaign finance reform.
Introduction

The partial or full financing of elections at all levels of government is a central mission of the reform community, but it faces vocal opposition from groups concerned about the normative implications of government-regulated speech. Many of the arguments that emerge in the debate over public financing are based on testable but unproven assertions, yet they are often presented as fact. To wit:

- Eliza Carney of National Journal writes, “The simple fact is that public financing would make it easier for challengers to unseat incumbents, by leveling the political-money playing field” (Carney 2006).

- A Public Campaign press release states, “Clean Elections puts voters first by leveling the playing field and allowing qualified people a chance to run for office without relying on money from powerful interests and lobbyists… Public financing of elections, or ‘Clean Elections,’ is a practical, proven reform” (Public Campaign 2006).

- Arguing in favor of a “clean elections” law for California, reform advocates Ted Williams and Susan Lerner write, “Until we change how election campaigns are funded, we will continue to have a stream of stories that make for great reading but which drive voters from the polls and perpetuate bottomless cynicism about feckless politicians.” Earlier in the same op-ed, they write, “Full disclosure has not solved the problem. We now have a system in which full disclosure leads to the overwhelming desire to vote for ‘none of the above.’ Full disclosure has had the unintended consequence of breeding cynicism and voter apathy” (Williams and Lerner 2006).

As we will show in this paper, none of the above statements is supported--and some are contradicted--by scientific evidence. In this paper, we argue that the existing scientific evidence should give pause to both advocates and detractors of public financing, as public financing programs have a minimal impact on election outcomes. Given this, and considering the potential negative effects of such programs (including but not limited to increased government outlays), existing reforms would appear unlikely to generate net positive effects in a comprehensive cost-benefit analysis. (We know of no
attempt at this sort of social accounting exercise.) However, just because existing reforms are ineffectual does not mean that future reform attempts are doomed to failure. What the evidence implies, though, is that states which choose clean elections laws should be aware that such reforms impose real costs on the citizenry for a very uncertain payoff.

We believe that normative discussions are most productive when grounded in empirical, social scientific evidence. It follows that a better understanding of the impact of public financing on the electoral process will improve the quality of normative debates on this issue. In the next section of the paper, we discuss alternative public funding schemes and proposed reforms to the system. Next, we discuss normative arguments on both sides of the issue. Then, we analyze the findings from the scholarly literature on public financing. We conclude by addressing the implications of these findings for the ongoing debates on this important issue in election law.

**What is Public Financing?**

We use the term “public financing” (or public funding) to refer to a system whereby tax revenues are used to pay for some or all of the costs of running for office. (Subsidies to political parties are sometimes included in the definition of public financing, as well, but we do not discuss these here.) In return for public subsidies, candidates must pledge to limit their expenditures. Decisions in *Buckley v. Valeo* and, more recently, *Randall v. Sorrell*, hold that mandatory expenditure limits are unconstitutional; these decisions necessitate that public financing systems be voluntary. These programs are funded in a variety of ways, including through a tax check-off, voluntary contributions, surcharges, as well as from general appropriations, and they vary
in terms of the manner in which funds are disbursed. In some jurisdictions, candidates receive matching funds for contributions. In others, they receive a lump sum.

Fifteen states have public financing systems currently in place for some statewide offices (CGS 2005). Of these, Maine and Arizona have so-called “clean elections” laws for all statewide and legislative candidates; other states have such laws in place for a smaller set of races. Connecticut this year also implemented a similar law affecting all statewide and legislative elections beginning in 2008. It is the first legislatively-enacted clean elections law applying to both the legislature and the governor; Maine and Arizona’s were both enacted via ballot measures. Two cities, Albuquerque, New Mexico and Portland, Oregon, also recently enacted such laws. These programs provide a candidate with funds to run for office; in exchange, the candidate can neither raise nor spend any additional funds. It is this reform that is touted as “proven” and “practical” (see p. 1).

At the federal level, candidates for President can receive public funding in both the primary season and in the general election in return for agreeing to limit expenditures. For the primary, funding is provided via matching funds. For the general election, the candidate pledges to accept no contributions; in return, the candidate receives a lump sum to run for office (approximately $75 million for the major party candidates in 2004). This funding has proven inadequate in recent years, and by 2004, Howard Dean, John Kerry, and George Bush all opted out of the system during the primary. Kerry recently stated that his biggest regret from the campaign was accepting public funds during the general election (NBC News 2006). Many observers believe that without significant reforms, all serious Presidential candidates will opt out of the system completely in 2008. While
there is widespread agreement that the system is in trouble, multiple solutions have been proffered, ranging from the elimination of the system (Cato Institute 2005) to significant changes necessary for making the system viable once more (CFI 2006). In the meantime, legislation is periodically introduced in Congress to institute public financing for House and Senate races. On May 3, 2006, a reform group called the Americans for Campaign Reform took out a full page ad in the *New York Times* calling for public financing of Congressional races. The ad is reproduced at the end of this paper, as it illustrates some of the arguments for public funding.

Across the country, state reform groups push for public financing in the states. Clean Elections laws are being proposed in several states, including California. Especially in light of *Randall v. Sorrell*, clean elections laws are the reform *du jour* in campaign finance. Reformers argue that large majorities of the public support public financing, but the reality is that support varies dramatically based on question wording (Mayer 2001, Primo 2002, Samples 2006, Weissman and Hassan 2005). Campaign finance reform is an issue that animates elites but bores the public (Mayer 2001, Primo 2002). As with most policy matters, the most intense support and opposition to any reforms is likely not to come from the public but from interest groups and elected officials. It is to their arguments that we now turn.

**Arguments For and Against Public Financing**

The claims made in favor and against public financing come in two forms: normative and positive. Normatively, those in favor of public financing view the entire process of fund raising as unseemly and inegalitarian. Therefore, decisions reached by officials elected under a system public financing system would be “more consistent with
representative democracy,” even if policy were unchanged as a result (Levin 2006). There is a belief that the money chase taints the process in ways that harms the relationship between elected officials and their constituents.

Those opposed to public funding hold that the policy requires that citizens subsidize the views of those with whom they disagree, and therefore is not an appropriate governmental function. Samples (2006, 185) writes, “Even if electoral competition did increase, public financing would still have one serious shortcoming: it forces each taxpayer to contribute to candidates and causes they oppose. It is similar to compulsory levies for the benefit of specific religions. Both force taxpayers to support views they oppose as a matter of conscience or interest. This compulsion has long been recognized and condemned.” Samples goes on to note that the Senate Watergate committee cautioned against public financing of presidential campaigns, citing Jefferson’s belief that “to compel a man to furnish contributions of money for the propagation of opinions which he disbelieves and abhors, is sinful and tyrannical.”

There are several empirically-based arguments in favor of public financing. We will focus on five of them, though others, like reducing the time spent on fund raising, lowering the amount of special interest pork doled out to contributors, and increasing the diversity of candidates, are often articulated. With regard to these three areas, we will simply note that reasonable theoretical arguments can be made for or against. These issues ultimately must be settled with empirical evidence, but currently no systematic evidence exists on these topics. Hence, we focus on the major claims of reformers that can be assessed empirically.
First, public financing will reduce the “corrupting” nature of the money chase, which will lead to improved citizen perceptions of government. This argument relies on connecting campaign contributions to corruption or the “appearance of corruption,” which in turn fuels cynicism toward government. Preventing corruption and the appearance thereof are justifications for reform that are endorsed by the Supreme Court.

Second, it will increase the competitiveness of elections. Because raising funds is typically more difficult for challengers, public financing gives them a leg up. This may help both attract new candidates to the electoral arena and also increase the likelihood that a challenger beats an incumbent.

Third, and related to the first two reasons, the reinvigorated electoral system will prompt more participation in the electoral system. If public financing leads to more competitive elections and more favorable views of government, citizens will be more apt to participate via voting, volunteering, and so on.

Fourth, economist Steven Levitt (1994) argues that because campaign spending has little impact at the margin, funding campaigns at levels lower than what is typically spent will be a net gain for society. In a novel research design, Levitt studies House races in which the same two candidates faced off against one another. This controls for candidate quality, a difficult-to-measure but presumably important component in determining a candidate’s vote share. He finds that implementing mandatory spending limits would have affected only fifteen elections over four sets of congressional elections. A nearly identical finding results if campaigns were funded up to the same amount as the hypothetical limit. While Levitt raises concerns about the costs of a public funding system vis-à-vis simply requiring mandatory limits, his findings nonetheless suggest that
few challengers would be hurt by such a hypothetical system. (See below for a critique of this finding.)

Fifth, some reformers claim that public financing will lead to better representation, because legislators and other elected officials will no longer be beholden to special interests. In the ad referenced earlier, the reformers write, “With public funding, wealthy special interests and their hired lobbyists would no longer have a commanding influence over our politics and government.” Public financing can impact policy outcomes in two ways: by altering the membership of the institution in policy-relevant ways, and by altering the behavior of members. A change in the electoral environment may lead both to the election of different individuals to a given post, as well as changes in the types of individuals who run for office. Meanwhile, stricter limits on campaign contributions, tied to the acceptance of public funds, may reduce any inappropriate influence that occurs in the campaign contribution process.

Next, we turn to the empirical arguments made by opponents of public financing. They argue that incumbents are likely to benefit from such a system, since to mount successful challenges to incumbents, candidates require significant infusions of money. A limit that is set too low (and it is difficult to assess what “low” is) may prevent challengers from mounting effective campaigns. Some opponents also believe that there may be a partisan bias to such reforms, aiding Democrats over Republicans. Smith (2001) also argues that in practice, reforms that will be enacted are likely to be difficult to administer, will not be changed quickly to address unintended consequences in the law, or just as bad, be subject to constant tinkering in an effort by individuals in power to gain electoral advantage.
In a nutshell, then, proponents of reform argue that public financing will lead to more competitive elections, improved perceptions of government, increased citizen participation, and “better” policy-making. Opponents point primarily to the fact that public financing will tend to entrench incumbents, thereby accomplishing precisely the opposite of what reformers would like.

What We Know

In the remainder of this piece, we would like to subject these arguments to empirical scrutiny by articulating what we do know about existing public financing programs. First, existing public funding programs have a non-positive impact on citizen perceptions of government and citizen participation in government. In a recent article in the *Election Law Journal*, we conduct a large-n statistical analysis and find a modest negative effect of these programs (Primo and Milyo 2006a). Moreover, we find a positive effect of disclosure; note that this result directly contradicts the speculative claims made in the op-ed referenced on p. 1. In a working paper, we show that public financing has a negative effect on gubernatorial election turnout in the post-*Buckley* era, though not when the entire period under study (1950-2000) is considered (Primo and Milyo 2006b). These counterintuitive findings may be due to the fact that the promise of reform typically fails to match the reality.

Second, we show that public financing has no impact on competitiveness in gubernatorial elections, nor does it confer an advantage to one party or another (Primo, Milyo, and Groseclose 2006). This finding was part of an analysis of 370 gubernatorial races from 1978 to 2004. We argue that results like these are more powerful than those articulated via anecdotes or single cases. Other scholars (e.g., Donnay and Ramsden
1995, Mayer and Wood 1995, and Mayer, Werner, and Williams 2006) have looked at reforms in a specific state or states, with mixed results.

Third, at the Congressional level, spending has a minimal effect on election outcomes *at the margin* (Gerber 1998, Levitt 1994, Milyo 1998). “At the margin” refers to the impact of an additional dollar of spending on a candidate’s vote share. These results, therefore, should not be interpreted to mean that money has no impact on election outcomes, but rather that candidates will tend to spend until each additional dollar of spending has little impact on the outcome. We are currently exploring whether this is true at the state level, as well.

As we noted above, Levitt has used this fact to argue that public financing would have little impact on election outcomes. However, Levitt implicitly assumes that the strategic interaction between candidates and candidate entry would remain unchanged as a consequence. Further, he acknowledges that implementing limits would cause the results of some of races to change--given how few challengers are successful, even a handful of altered outcomes is noteworthy. Finally, Levitt focuses strictly on the *instrumental* impact of spending. But as Coleman and Manna (2000) have shown, spending has positive effects on perceptions of government. Moreover, Primo (2002) shows that aggregate spending on Congressional elections does not appear to hurt trust in government. However, Snyder, Puglisi, and Prat (2005) find that, holding constant the level of spending, information on the amount and pattern of contributions in a privately-financed system tells the voter little about the quality of candidates, offering some support for a well-funded system of public financing.
Fourth, while reformers like John McCain are fond of making statements like, “I work in Washington and I know that money corrupts” (Will 2006), science suggests otherwise. Ansolabehere, de Figueiredo, and Snyder (2003) show that there is little to no evidence that campaign contributions have a systematic effect on policy outcomes at the federal level, though Primo (2006a) argues that the state level may offer the opportunity to compare reforms in a way that is not possible at the federal level. Going in, however, it is unlikely that a strong link between contributions and policy outcomes will be found at the state level.

In short, systematic empirical analyses have resulted in virtually no evidence that public financing improves competitiveness, citizen participation in government, or citizen perceptions of government. In addition, given the weak evidence linking contributions to policy outcomes, we should not expect policy making to be significantly altered as a result of these laws. Regrettably, evidence is often trumped by anecdote in both court cases and in the reform community. How else can one square the above evidence with claims that public financing is a “practical, proven” reform?

**What We Don’t Know**

The results in Primo and Milyo (2006a,b) and Primo, Milyo, and Groseclose (2006) are based on combining all types of public financing programs. Proponents of reform argue that existing programs are often poorly funded or do not allow for enough spending, and they point to recent reforms in Maine and Arizona as evidence that “clean elections” laws are where reforms should head. However, there is no systematic evidence that these laws have had a significant impact on the system. The reason is that existing analyses of these laws are based on too little data. Large short-term effects of a law may
dissipate over time once elected officials have adjusted to the new electoral environment, and once weak incumbents have been defeated or voluntarily retire.

The lack of evidence does not stop journalists and reformers from touting Maine and Arizona as rousing successes. This is sometimes done by focusing on whatever aspect of reform appears best supported by the data. For instance, the Arizona-based Clean Elections Institute (n.d.) notes that 20 of 30 state Senate races were uncontested in 1998 (pre-reform), while only nine were uncontested in 2002 (post-reform). This, of course, defines competitiveness as having an opponent. A more appropriate measure is whether a candidate had a serious competitor (with 60% typically being the vote share below which a race is considered competitive).

We examined the 1998 and 2002 data for Arizona. First, in 1998, only 17 of 30 races appeared to be uncontested. In 2002, 12 races were uncontested in the general election. Of the contested races, the average winning margin was (modestly) lower in 1998 than in 2002. Moreover, in 1998 four races had margins below 60%. In 2002 that number was again four. We are not claiming that public funding did or did not have a real effect on the races. We are arguing, however, that parsing one or two years of data hardly provides a ringing endorsement of clean elections laws. Perhaps for this reason, after discussing how the races became more “competitive,” the Clean Elections Institute approvingly cites the Institute on Money in State Politics, which writes that Arizona’s results “can be summed up in a few short phrases: More candidates participating. Less private money. Greater equity.” Note that this says nothing about the impact on election outcomes or citizen participation in the process.
It is too early to tell whether clean elections laws in Maine and Arizona will have systematic long-term effects on elections and policy. The initial findings, however, are far from a “slam dunk” in favor of such reforms. Data in Mayer et al. (2006) show that the percent of incumbents in competitive races in Maine surpassed the rate in 1992-1996 only in 2004, the 3rd election cycle after the clean elections law went into effect. However, the percentage of incumbents who run and win has changed little since the law went into effect. The results in Arizona are harder to parse, because the clean elections law was implemented alongside term limits, thereby changing the political landscape dramatically. Even here, the incumbent reelection rate, after dropping the first year the law was in effect (2000), has climbed back up to approximately 85%. While this data does not permit one to make causal claims, evidence that clean elections is a panacea is hard to amass. Moreover, most analyses ignore the cost side of the equation. A legitimate cost-benefit analysis would need to ask whether government outlays are justified by the effects of the laws. Finally, it is still too early to tell whether clean elections laws will have a long-lasting impact on the composition of state legislators or occupants of the governor’s office, and in turn, on public policy.

We cannot emphasize enough how important it is not to draw conclusions from summary statistics. One has to account for other institutional factors that can mediate the impact of any campaign finance reform. For instance, if gerrymandering creates districts that are overwhelmingly tilted in favor of one party, then public financing is an exercise in futility, and one should expect it to fail. On the other hand, if public financing is enacted at the same time as term limits, it will be very difficult to assess the impact of
public financing independently, as term limits will impact the types of candidates who run for office.

To date, no study has separated out the effects of reform details. For instance, how do different expenditure limits and matching provisions affect outcomes? One reason for the dearth of studies is the lack of sufficient variation to draw such fine-grained conclusions, compounded by the fact that campaign costs vary greatly across states. We hope to pursue such an analysis as states gain more experience with a variety of public funding laws.

**Implications for the Reform Debate**

Existing analyses show that public financing programs have little to no positive impact on competitiveness, turnout, or perceptions of government. Clean elections laws may prove to be the reform that saves democracy, but the initial evidence suggests that reformers should proceed with caution. Given that reforms impose real costs on taxpayers, proposed reforms represent a risky proposition. There will be guaranteed costs but benefits that are likely to have a low mean (with a high variance). Similarly, opponents should be careful not to overstate the case that such reforms entrench incumbents.

In theory, a public financing law could be designed that would increase the competitiveness of elections, which in turn would be likely to increase turnout. (We are skeptical that any reform will increase perceptions of government.) Why, then, are we skeptical that such reforms can be designed? There are several reasons. First, laws are not made in a vacuum but (typically) by elected officials with vested interests in the outcome. This increases the likelihood that any given reform will be a failure.
Reformers might retort that this is why changes need to be enacted via the citizen initiative. This is not possible in states without the initiative, of course, and besides, should initiatives pick up steam, legislators may attempt to sideline them (both before and after they are proposed and/or enacted). This year in Arizona just such an attempt was made, though it ultimately failed. In the long run, then, one should not expect public funding laws to be designed with effectiveness in mind.

Second, even if political maneuvering were not an issue, the challenge of designing the rules with the right limits in place would remain. If the limits are set too low, incumbents will be advantaged. If the limits are set too high, taxpayers will incur needless costs, the system may difficult to sustain, and the costs may exceed the benefits. Moreover, campaigns that take place in a “free market” can adjust on the fly if spending is too low. Any public funding law that is to remain viable in the long run would need to have a mechanism built-in that allowed for adjustments.

In short, there are both political problems and design problems associated with reform, just as with other reforms of government, such as budgetary policymaking (Primo 2006b). Reformers will tend to argue that some reform is better than no reform, but existing studies suggest that the reverse may be true. How else to explain that public financing has potentially harmed citizen perceptions of government?

It is unclear, also, why a laissez-faire system of fully disclosed contributions but no limits on spending or contributions would be less favorable than public financing. The impact on trust, we expect, would be minimal, since the public thinks the current, hyper-regulated system is corrupt. Competitiveness would be likely to increase, as challengers would not have to worry about gathering donations in small amounts.
Moreover, the absence of limits would allow candidates to raise funds from fewer donors, thereby minimizing fund raising time. This system would also require no taxpayer funding.

Immediately following the June 2006 Supreme Court decision in *Randall v. Sorrell*, which overturned a Vermont law imposing spending limits on candidates for state offices, reform groups called for a renewed effort to enact new campaign finance laws. Adam Lioz, “democracy advocate” for the U.S. Public Interest Research Group, told *Roll Call*, “This decision just adds urgency to the movement to provide a public financing option” (Ackley 2006). In a statement, Stuart Comstock-Gay, the Executive Director of the National Voting Rights Institute, said, “This [decision] will intensify support for voluntary public financing systems, and in the end a constitutional amendment to allow mandatory spending limits may be necessary” (NVRI 2006).

The galvanizing impact of *Randall* makes our paper particularly timely, and arguments like the ones that introduced this paper prompt us to call for greater attention to empirical evidence in the debate over clean elections proposals. We are not so naïve about politics to believe that proponents and opponents alike will stop making selective use of the evidence. As scholars, all we can do is present the evidence and call attention to erroneous claims. It is up to journalists and others who filter the arguments on both sides of the issue to familiarize themselves with this evidence.
References

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